

# PERAC AUDIT REPORT



Needham

Contributory Retirement System



JAN. 1, 2006 - DEC. 31, 2008



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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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August 28, 2009

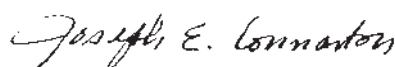
The Public Employee Retirement Administration Commission has completed an examination of the Needham Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2006 to December 31, 2008. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission, with the exception of the finding presented in this report.

It should be noted that the findings determined in this audit report were based on the Laws and Regulations in effect during the time the audit was conducted for the period referenced in this report. These findings do not reflect the changes made to Chapter 32 after passage of Chapter 21 of the Acts of 2009.

In closing, I acknowledge the work of examiners Carol M. Niemira and Scott Henderson who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton  
Executive Director



## EXPLANATION OF FINDINGS AND RECOMMENDATIONS

### **Membership**

An examination of Needham Housing Authority payroll records showed that a weekly payment for being on call after normal hours, which is rotated regularly among several workers, is erroneously excluded from retirement deductions. If the member is called in to work, a part or all of the on-call amount is converted to overtime pay, depending on the number of hours worked.

**Recommendation:** If not all of the on-call payment is converted to overtime pay for being called in to work, the remaining portion is subject to retirement deductions. This payment fits the definition of regular compensation under 840 CMR 15.03 in that it is “ordinary, normal, recurrent, repeated; and of indefinite duration.” Portions of this payment that are converted to overtime are not subject to retirement deductions.

### **FINAL DETERMINATION:**

***PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.***

# STATEMENT OF LEDGER ASSETS AND LIABILITIES

AS OF DECEMBER 31,			
	2008	2007	2006
<b>Net Assets Available For Benefits:</b>			
Cash	\$1,975,189	\$1,249,745	\$583,047
PRIT Cash Fund	420,351	586,198	514,897
PRIT Core Fund	82,961,175	122,057,404	112,457,427
Accounts Receivable	23,726	48,593	78,508
Accounts Payable	(29,915)	(32,090)	(38,461)
<b>Total</b>	<u>\$85,350,525</u>	<u>\$123,909,850</u>	<u>\$113,595,417</u>
<b>Fund Balances:</b>			
Annuity Savings Fund	\$22,726,130	\$21,287,563	\$20,209,263
Annuity Reserve Fund	6,896,739	7,285,858	7,438,306
Pension Fund	4,515,614	4,061,406	3,504,108
Military Service Fund	4,859	8,765	8,713
Expense Fund	0	0	0
Pension Reserve Fund	51,207,184	91,266,257	82,435,027
<b>Total</b>	<u>\$85,350,525</u>	<u>\$123,909,850</u>	<u>\$113,595,417</u>

## STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2006)	\$19,176,518	\$7,518,895	\$3,469,966	\$8,661	\$0	\$70,180,379	\$100,354,419
Receipts	2,495,077	221,345	4,381,625	52	763,736	15,387,293	23,249,128
Interfund Transfers	(900,237)	893,798	3,139,083	0	0	(3,132,644)	0
Disbursements	(562,094)	(1,195,733)	(7,486,566)	0	(763,736)	0	(10,008,130)
Ending Balance (2006)	20,209,263	7,438,306	3,504,108	8,713	0	82,435,027	113,595,417
Receipts	2,573,458	222,383	4,583,054	52	808,164	12,334,620	20,521,731
Interfund Transfers	(874,806)	876,257	3,501,939	0	0	(3,503,391)	0
Disbursements	(620,353)	(1,251,087)	(7,527,695)	0	(808,164)	0	(10,207,299)
Ending Balance (2007)	21,287,563	7,285,858	4,061,406	8,765	0	91,266,257	123,909,850
Receipts	2,785,836	213,697	4,531,718	29	692,081	(36,434,287)	(28,210,927)
Interfund Transfers	(638,373)	642,081	3,625,013	(3,935)	0	(3,624,786)	0
Disbursements	(708,896)	(1,244,897)	(7,702,524)	0	(692,081)	0	(10,348,397)
Ending Balance (2008)	<u>\$22,726,130</u>	<u>\$6,896,739</u>	<u>\$4,515,614</u>	<u>\$4,859</u>	<u>\$0</u>	<u>\$51,207,184</u>	<u>\$85,350,525</u>

# STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2008	2007	2006
<b>Annuity Savings Fund:</b>			
Members Deductions	\$2,340,525	\$2,250,730	\$2,105,693
Transfers from Other Systems	298,266	130,765	238,754
Member Make Up Payments and Re-deposits	24,622	48,757	40,879
Member Payments from Rollovers	0	27,356	0
Investment Income Credited to Member Accounts	<u>122,423</u>	<u>115,850</u>	<u>109,751</u>
Sub Total	<u>2,785,836</u>	<u>2,573,458</u>	<u>2,495,077</u>
<b>Annuity Reserve Fund:</b>			
Investment Income Credited to the Annuity Reserve Fund	<u>213,697</u>	<u>222,383</u>	<u>221,345</u>
<b>Pension Fund:</b>			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	126,413	113,595	111,631
Pension Fund Appropriation	<u>283,979</u>	<u>490,459</u>	<u>434,994</u>
	<u>4,121,326</u>	<u>3,979,000</u>	<u>3,835,000</u>
Sub Total	<u>4,531,718</u>	<u>4,583,054</u>	<u>4,381,625</u>
<b>Military Service Fund:</b>			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited to the Military Service Fund	<u>29</u>	<u>52</u>	<u>52</u>
Sub Total	<u>29</u>	<u>52</u>	<u>52</u>
<b>Expense Fund:</b>			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>692,081</u>	<u>808,164</u>	<u>763,736</u>
Sub Total	<u>692,081</u>	<u>808,164</u>	<u>763,736</u>
<b>Pension Reserve Fund:</b>			
Federal Grant Reimbursement	0	0	0
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	1,869	2,645	3,005
Miscellaneous Income	0	0	0
Excess Investment Income (Loss)	<u>(36,436,156)</u>	<u>12,331,975</u>	<u>15,384,288</u>
Sub Total	<u>(36,434,287)</u>	<u>12,334,620</u>	<u>15,387,293</u>
<b>Total Receipts</b>	<u>(\$28,210,927)</u>	<u>\$20,521,731</u>	<u>\$23,249,128</u>

# STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2008	2007	2006
<b>Annuity Savings Fund:</b>			
Refunds to Members	\$259,226	\$221,884	\$307,402
Transfers to Other Systems	<u>449,670</u>	<u>398,469</u>	<u>254,693</u>
Sub Total	<u>708,896</u>	<u>620,353</u>	<u>562,094</u>
<b>Annuity Reserve Fund:</b>			
Annuities Paid	1,243,618	1,204,682	1,160,315
Option B Refunds	<u>1,279</u>	<u>46,406</u>	<u>35,418</u>
Sub Total	<u>1,244,897</u>	<u>1,251,087</u>	<u>1,195,733</u>
<b>Pension Fund:</b>			
Pensions Paid:			
Regular Pension Payments	5,817,970	5,656,536	5,501,476
Survivorship Payments	336,107	344,383	329,303
Ordinary Disability Payments	18,866	18,506	18,146
Accidental Disability Payments	978,467	950,030	1,028,683
Accidental Death Payments	296,158	297,531	297,871
Section 101 Benefits	35,234	31,773	38,043
3 (8) (c) Reimbursements to Other Systems	219,721	228,936	273,045
State Reimbursable COLA's Paid	0	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>7,702,524</u>	<u>7,527,695</u>	<u>7,486,566</u>
<b>Military Service Fund:</b>			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
<b>Expense Fund:</b>			
Board Member Stipend	0	0	0
Salaries	118,194	114,898	109,423
Legal Expenses	540	375	166
Medical Expenses	0	0	0
Travel Expenses	12,612	10,653	10,638
Administrative Expenses	20,069	32,393	16,007
Furniture and Equipment	2,455	0	3,984
Management Fees	514,246	626,933	607,520
Custodial Fees	0	0	0
Consultant Fees	0	0	0
Rent Expenses	0	0	0
Service Contracts	17,385	16,534	10,180
Fiduciary Insurance	<u>6,579</u>	<u>6,377</u>	<u>5,818</u>
Sub Total	<u>692,081</u>	<u>808,164</u>	<u>763,736</u>
<b>Total Disbursements</b>	<u>\$10,348,397</u>	<u>\$10,207,299</u>	<u>\$10,008,130</u>



# INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2008	2007	2006
<b>Investment Income Received From:</b>			
Cash	\$60,889	\$56,344	\$48,894
Pooled or Mutual Funds	3,647,785	3,924,685	3,529,117
Commission Recapture	0	0	0
<b>Total Investment Income</b>	<u>3,708,674</u>	<u>3,981,029</u>	<u>3,578,010</u>
<b>Plus:</b>			
Realized Gains	1,146,063	11,251,002	7,131,447
Unrealized Gains	6,081,327	7,732,261	9,696,901
Interest Due and Accrued - Current Year	0	0	0
Sub Total	<u>7,227,390</u>	<u>18,983,263</u>	<u>16,828,349</u>
<b>Less:</b>			
Paid Accrued Interest on Fixed Income Securities	0	0	0
Realized Loss	(10,326,649)	0	0
Unrealized Loss	(36,017,342)	(9,485,867)	(3,927,186)
Interest Due and Accrued - Prior Year	0	0	0
Sub Total	<u>(46,343,991)</u>	<u>(9,485,867)</u>	<u>(3,927,186)</u>
<b>Net Investment Income (Loss)</b>	<u>(35,407,927)</u>	<u>13,478,425</u>	<u>16,479,173</u>
<b>Income Required:</b>			
Annuity Savings Fund	122,423	115,850	109,751
Annuity Reserve Fund	213,697	222,383	221,345
Military Service Fund	29	52	52
Expense Fund	<u>692,081</u>	<u>808,164</u>	<u>763,736</u>
<b>Total Income Required</b>	<u>1,028,229</u>	<u>1,146,449</u>	<u>1,094,885</u>
Net Investment Income (Loss)	<u>(35,407,927)</u>	<u>13,478,425</u>	<u>16,479,173</u>
Less: Total Income Required	<u>1,028,229</u>	<u>1,146,449</u>	<u>1,094,885</u>
<b>Excess Income (Loss) To The Pension Reserve Fund</b>	<u>(\$36,436,156)</u>	<u>\$12,331,975</u>	<u>\$15,384,288</u>

# SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2008			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$1,975,189	2.3%	100%
PRIT Cash Fund	420,351	0.5%	100%
PRIT Core Fund	<u>82,961,175</u>	<u>97.2%</u>	100%
<b>Grand Total</b>	<u><b>\$85,356,714</b></u>	<u><b>100.0%</b></u>	

For the year ending December 31, 2007, the rate of return for the investments of the Needham Retirement System was 12.06%. For the five-year period ending December 31, 2007, the rate of return for the investments of the Needham Retirement System averaged 16.20%. For the 23-year period ending December 31, 2007, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Needham Retirement System was 11.69%.

## SUPPLEMENTARY INVESTMENT REGULATIONS

The Needham Retirement System is 100% invested in PRIT and therefore has no supplemental investment regulations.

# NOTES TO FINANCIAL STATEMENTS

## NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Needham Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

### ADMINISTRATION

There are 106 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

### PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

#### **Group 1:**

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

#### **Group 2:**

Certain specified hazardous duty positions.

#### **Group 4:**

Police officers, firefighters, and other specified hazardous positions.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

### RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

### RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire no later than the end of month they attain age 65. There is no mandatory retirement age for employees in Group 1.

### SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

## NOTES TO FINANCIAL STATEMENTS (Continued)

### AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, § 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

- Salary is defined as gross regular compensation.
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

### DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, § 10.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

### WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

#### ORDINARY DISABILITY

**Eligibility:** Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, § 6(I) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”.

**Retirement Allowance:** Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

#### ACCIDENTAL DISABILITY

**Eligibility:** Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

**Retirement Allowance:** 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$687.96 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, § 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### ACCIDENTAL DEATH

**Eligibility:** Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

**Allowance:** An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$687.96 per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000 from the State Retirement Board.

### DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000.

### DEATH IN ACTIVE SERVICE

**Allowance:** An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child, and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.



## NOTES TO FINANCIAL STATEMENTS (Continued)

### COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

### METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

**Option A:** Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

**Option B:** A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

**Option C:** A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Needham Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

November 1, 2007

#### **Membership**

**Date of Entry:** Membership in the Needham Contributory Retirement System is mandatory for employees appointed for a period in excess of six months and working on a routine and regular basis an average of twenty (20) hours or more per week and is effective as of the first day of employment.

**Crossing Guards:** Crossing Guards hired on or after Wednesday, November 19, 2003, who do not meet the eligibility requirement of working twenty (20) hours or more per week on a regular basis, are not eligible for membership in the Needham Contributory Retirement System. Any Crossing Guard enrolled prior to Wednesday, November 19, 2003 may elect to remain a member and seek a retirement benefit, if and when qualified, or request a refund of his/her accumulated deductions and earned interest.

**Election Registrars:** Appointees to the Board of Registrars on or after Wednesday, December 18, 2002 are not eligible for membership in the Needham Contributory Retirement System based solely on this appointment. Any Registrar enrolled in the Needham Contributory Retirement System as of Wednesday, December 18, 2002 may elect to remain a member and seek a retirement benefit, if and when qualified, or request a refund of his/her accumulated deductions and earned interest.

**Group Classification:** The Needham Retirement Board unanimously approved the reclassification of the position of School Craftsman-Electrician to a group 2 classification because this position requires an electrician license.

**Kase Employees:** Full-time elementary school department kindergarten after school enrichment (KASE) employees are eligible for membership in the Needham Contributory Retirement System.

**Inactive Members:** Members of the Needham Contributory Retirement System who have been inactive for over two (2) years shall be notified that no more interest accrues on their account and that they may take a refund.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

#### **Creditable Service**

**Break in Service:** Former members who resign but leave their contributions in the Needham Contributory Retirement System and subsequently are re-hired at less than twenty (20) hours per week are eligible to continue their creditable membership service.

**Unused Vacation at Retirement:** Unused vacation time may be used to extend creditable service through the vacation period, or the retiree may take vacation pay in a lump sum, ending creditable service at the last day worked.

#### **Regular Compensation**

**Payment for Unused Vacation and Sick Days:** Pay provided to employees in lieu of vacation and/or sick time is excluded from regular compensation.

#### **Buy-Backs**

**Payment of Interest:** An individual buying back time during which he/she was eligible for membership but no deductions were contributed to the retirement system, must also pay back the interest which would have been earned on the account.

**Military Buy-back:** The Military Buy-back provision of Chapter 116 of the Massachusetts General Court Acts and Resolves of 2002 shall apply to eligible members who only purchased a portion of their service allowed at the first opportunity in 1997 or 1998, as well as to those eligible members who have never previously applied for a buy-back. The eligible member must elect to purchase the allowable service buy-back within one hundred eighty (180) days of the notification of his/her eligibility and the necessity to request the approval of the Needham Retirement Board and must complete the buy-back within five (5) years of the date of notification of the cost of the buy-back.

**Buy-back Research Requests:** Requests for research assistance for payroll record information for buy-backs from teachers and non-members must be in writing to the payroll coordinator of the specific department, not to the Needham Retirement Board.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

#### **Disability Retirement**

**Earnings Restrictions:** A disabled member of the Needham Contributory Retirement System whose earnings exceed the limitation set forth in M.G.L. c.32, sec.91A may demonstrate that a lump-sum payment of said over earnings to the Needham Contributory Retirement System would result in financial hardship and the Needham Retirement Board, in its sole discretion, shall develop a monthly payment schedule to address the disabled member's financial needs. This schedule of payment shall not exceed six (6) months. If the disabled member elects to utilize said monthly payment schedule, the method of payment shall be by automatically withholding the predetermined amount from the disabled member's monthly retirement allowance.

**Special Constables:** Upon receipt of notice of candidates considered for appointment to the position of Special Constable in the Needham Police Department, the Needham Retirement Board shall inform the Chief of Police and the Board of Selectmen of any candidate(s) that had retired under Accidental Disability provisions and strongly suggest denial of appointment of said candidate(s) to the position if, in the opinion of the majority of the Needham Retirement Board members, the medical condition of a retiree would put the Town in an uncertain position.

#### **Involuntary Retirement**

**Hearing:** Any member entitled to M.G.L. c.32, sec.16B benefits shall be invited to have a hearing with the Board.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the Town Treasurer who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Evelyn M. Poness, Chairperson

Appointed Member: Kate Fitzpatrick                      Term Expires: 11/06/11

Elected Member: Thomas A. Welch                      Term Expires: 07/24/10

Elected Member: John P. Krawiecki                      Term Expires: 12/17/11

Appointed Member: Robert P. Mearls                      Term Expires: 04/15/12

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:	)	\$50,000,000 Fiduciary
Ex-officio Member:	)	\$1,000,000 Fidelity
Elected Members:	)	MACRS Master Policy
Appointed Members:	)	St. Paul Travelers, National Union Fire and
Staff Employee:	)	Arch

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Buck Consultants as of January 1, 2007.

The actuarial liability for active members was	\$59,447,212
The actuarial liability for retired and inactive members was	<u>69,221,374</u>
The total actuarial liability was	128,668,586
System assets as of that date were (actuarial value)	<u>102,235,876</u>
 The unfunded actuarial liability was	 <u>\$26,432,710</u>
The ratio of system's assets to total actuarial liability was	79.5%
As of that date the total covered employee payroll was	\$26,120,560

The normal cost for employees on that date was 8.1% of payroll

The normal cost for the employer was 5.0% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return:	8.25% per annum
Rate of Salary Increase:	5.25% per annum

### GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2007

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability ( b )	Unfunded AAL (UAAL) ( b-a )	Funded Ratio ( a/b )	Covered Payroll ( c )	UAAL as a % of Cov. Payroll ( (b-a)/c )
1/1/2007	\$102,235,876	\$128,668,586	\$26,432,710	79.5%	\$26,120,560	101.2%
1/1/2005	\$89,965,920	\$119,994,011	\$30,028,091	75.0%	\$23,585,296	127.3%
1/1/2004	\$82,910,726	\$113,426,667	\$30,515,941	73.1%	\$21,633,442	141.1%
1/1/2003	\$76,356,568	\$108,537,756	\$32,181,188	70.4%	\$21,380,463	150.5%



## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 6 - MEMBERSHIP EXHIBIT

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>Retirement in Past Years</b>										
Superannuation	4	20	15	9	13	15	14	12	12	9
Ordinary Disability	0	0	0	0	0	0	0	0	0	0
Accidental Disability	0	1	3	0	0	0	2	1	2	0
<b>Total Retirements</b>	4	21	18	9	13	15	16	13	14	9
Total Retirees, Beneficiaries and Survivors	539	541	531	541	527	529	524	513	507	498
Total Active Members	545	587	592	612	636	652	671	654	665	636
<b>Pension Payments</b>										
Superannuation	\$3,649,454	\$3,915,473	\$4,065,330	\$4,295,624	\$4,720,625	\$5,029,788	\$5,404,644	\$5,501,476	\$5,656,536	\$5,817,970
Survivor/Beneficiary Payments	212,785	218,169	225,317	264,497	313,008	276,938	328,452	329,303	344,383	336,107
Ordinary Disability	49,102	52,726	53,732	55,141	64,753	66,454	30,546	18,146	18,506	18,866
Accidental Disability	756,759	804,236	833,125	827,090	848,983	889,922	902,142	1,028,683	950,030	978,467
Other	383,780	402,562	436,921	453,335	460,268	487,368	499,419	608,959	558,240	551,113
<b>Total Payments for Year</b>	<u>\$5,051,880</u>	<u>\$5,393,166</u>	<u>\$5,614,425</u>	<u>\$5,895,687</u>	<u>\$6,407,637</u>	<u>\$6,750,470</u>	<u>\$7,165,203</u>	<u>\$7,486,566</u>	<u>\$7,527,695</u>	<u>\$7,702,524</u>

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